

**PX5**

**Declaration and  
Exhibits A and B**

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

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**SECURITIES AND EXCHANGE COMMISSION, :**  
:  
**Plaintiff, :** **19 Civ. 09439 (PKC)**  
:  
**- against - :** **ECF Case**  
:  
**TELEGRAM GROUP INC. and TON ISSUER INC. :**  
:  
**Defendants. :**  
:  
-----x

**DECLARATION OF [REDACTED]**

I, [REDACTED], pursuant to 28 U.S.C. § 1746, declare:

1. I reside in [REDACTED].
2. I received an MBA from [REDACTED].
3. I joined [REDACTED], a [REDACTED] venture capital firm, in [REDACTED], and became a General Partner at the firm in [REDACTED]. I left [REDACTED] in the fall of [REDACTED] to join the [REDACTED] firm [REDACTED].
4. During my time at [REDACTED], I focused on investments in the firm's [REDACTED] practice, which consisted of [REDACTED] funds targeting [REDACTED].
5. Other than the purchase of Grams tokens from Telegram, which I discuss below, I am not aware of investments by [REDACTED] funds in digital assets.
6. In approximately late 2017, I learned about a potential opportunity relating to Telegram. I do not recall whether I learned of this opportunity through my partner, [REDACTED] [REDACTED], who was acquainted with Telegram's founder Pavel Durov, or through some other means. At this early stage, I learned that while Telegram was not raising equity, it was offering an opportunity for investors to purchase some derivative product, though I do not recall initially

knowing details about the nature of the product. At some later point, in late 2017 or early 2018, I learned that the product Telegram was offering was a digital token.

7. At this early stage, I was interested in evaluating the Telegram opportunity because I was interested in the momentum of the Telegram communications platform, Telegram Messenger, including what I understood to be Messenger's expansive, engaged, and global user base. The Telegram Messenger platform, one of the few global messaging platforms, reminded me of great ecosystems like Facebook and SnapChat.

8. [REDACTED] and I set out to obtain more information about the potential Telegram opportunity. [REDACTED] organized a dinner meeting with Mr. Durov, John Hyman (who I understood to be affiliated with Morgan Stanley), and Jonathan Lourie (who I understood to have a relationship with Mr. Hyman). At this dinner, which took place on or about January 9, 2018 in London, Mr. Durov spoke primarily with [REDACTED], and I spoke primarily with Mr. Hyman. Mr. Hyman and I discussed the mechanics around the potential purchase of the digital tokens, called Grams, including the potential allocation for [REDACTED], timing, and process matters.

9. After this meeting, I, along with [REDACTED] and other colleagues at [REDACTED], set out to evaluate the opportunity presented by Telegram. I had several phone calls with Mr. Hyman regarding a number of process issues including the allocation amount, timing, and approval process. I also corresponded with another representative of Telegram about some process issues. I reviewed the primer provided by Telegram; I had access to Telegram's white paper but did not review that highly technical document. My colleagues and I also analyzed patterns of similar communications platforms like WeChat, and benchmarking of other ecosystems developed around WeChat. We also analyzed the success of the Telegram Messenger platform, focusing on data metrics of the Telegram Messenger application, based on

information from Telegram as well as publicly available information. We also analyzed the performance of currencies of developing nations.

10. We attempted to obtain additional information from Telegram regarding its user base, user retention, user engagement, and commercial intent, but Mr. Hyman informed us in an email on or about January 12, 2018, that Telegram would not provide us with this information. We were able to obtain some third party data around these metrics that allowed us to better understand Telegram Messenger's user base. I considered Telegram's position on sharing this information to be highly unusual and to shine a light on how different the Telegram opportunity was from typical opportunities presented to or considered by [REDACTED].

11. I ultimately recommended that [REDACTED] purchase Telegram's digital tokens, and memorialized my recommendation in an email to the [REDACTED] investment committee, dated January 16, 2018, a true and correct copy of which is attached hereto as **Exhibit A**. As I informed my partners: “[W]e are pursuing a \$30MM investment opportunity in Telegram, a distributed global messaging platform with 180MM MAUs. This investment would be by way of a token purchase in the Telegram Open Network (“TON”), a commerce platform integrated within Telegram that is still under development.”

12. [REDACTED] purchased Grams because it had conviction in the theoretical belief that these digital coins would have value based on the build-out of the TON ecosystem around the Telegram commerce platform (when that would be launched), which was built around the powerful and unique Telegram communications platform. The synergies between the communications platform and the contemplated commerce platform were fundamental aspects of [REDACTED] decision to purchase Grams. I explained to my partners at the time: “Our investment thesis is driven by the belief that the value of Grams tokens will be highly correlated with the

GMV [gross merchandise volume] growth potential of the TON commerce platform itself. Our interest in TON is based on the strong and natural synergies that we believe will exist between Telegram's commerce platform and the core messaging platform, similar to WeChat. . . ." See **Exhibit A.**

13. In other words, I viewed the Messenger platform and the to-be-developed TON platform to be connected. As I noted to my colleagues at the time in an email dated January 12, 2018, a true and correct copy of which is attached hereto as **Exhibit B**: "Our return opportunity is via appreciation of the value of tokens, which is directly related to the success of their soon-to-launch commerce platform (TON), which has everything to do with the strength and potential of their communications platform. . ." See Ex. B at 1585.

14. On or about January 16, 2018, [REDACTED] sent to Telegram an indication of interest to "invest up to USD \$30,000,000 in the Pre ICO of Telegram."

15. On or about January 18, 2018, Mr. Hyman sent me an email proposing a \$15 million allocation. In that communication, Mr. Hyman provided [REDACTED] the following documents: Process Memorandum; KYC Form and Purchase Agreement; Pre-Sale Primer; Technical White Paper (Appendix A to Pre-Sale Primer); and Risk Factors (Appendix B to Pre-Sale Primer).

16. Telegram subsequently agreed to increase [REDACTED] allocation to \$30 million.

17. On or about February 7, 2018, [REDACTED] fund, signed a "Purchase Agreement for Grams" (the "Purchase Agreement") with TON Issuer Inc., pursuant to which [REDACTED] agreed to pay \$30 million for 79,457,357 Grams. Telegram emailed the counter-signed Purchase agreement to [REDACTED] on or about February 7, 2018.

18. On or about February 8, 2018, [REDACTED] wired \$30,000,000 to Telegram.

19. I viewed the Purchase Agreement as a pre-commitment by [REDACTED] to take custody of Grams upon the launch of the TON platform and delivery of Grams.

20. I viewed the success of Grams as a cryptocurrency to be highly correlated with the success of the TON commerce platform that Telegram was building and the ecosystem that developed around that platform.

21. I viewed the purchase of Grams as one that [REDACTED] would hold for some period of time and ultimately sell, hopefully for a profit, at an appropriate time. [REDACTED] purchased Grams with the aim of making a profit when it ultimately sold the Grams.

22. To my knowledge and understanding, [REDACTED] did not intend to use Grams for consumptive purposes, including staking or validation.

23. To my knowledge and understanding, Telegram did not ask [REDACTED] what it planned to do with Grams upon delivery.

24. To my knowledge and understanding, Telegram did not ask [REDACTED] whether it intended to act as a validator for the TON platform.

25. I understand that [REDACTED] agreed to extend the deadline date for delivery of Grams to April 30, 2020, in light of the SEC's lawsuit against Telegram.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on: January 13, 2020



# Exhibit A

**From:** [REDACTED]  
**To:** [REDACTED]  
**CC:** [REDACTED]  
**Sent:** 1/16/2018 7:15:03 AM  
**Subject:** Telegram - [REDACTED] decision  
**Attachments:** TON-Primer.pdf; TON Build 1.15.2018.pdf

[REDACTED] (minus [REDACTED], given Google sensitivities),

As you know, we are pursuing a \$30MM investment opportunity in Telegram, a distributed global messaging platform with 180MM MAUs. This investment would be by way of a token purchase in the Telegram Open Network ("TON"), a commerce platform integrated within Telegram that is still under development. The tokens themselves (called "Grams") are a blockchain-based currency (also under development) that would enable fast, secure transactions to occur on the Telegram platform.

Our investment thesis is driven by the belief that the value of Gram tokens will be highly correlated with the GMV growth potential of the TON commerce platform itself. Our interest in TON is based on the strong and natural synergies that we believe will exist between Telegram's commerce platform and the core messaging platform, similar to WeChat (which had similar scale in 2012, with \$12B in GMV flowing through its commerce platform at that time).

The Deal Team [REDACTED] are in favor of making this investment. We need to make an official decision today in order to participate in the token presale opportunity being offered to institutional VCs. The summary below provides an overview on our investment opportunity, process, and risk/reward profile:

#### Investment Opportunity

Our investment opportunity and return formula are based on the appreciation in value of Telegram's yet-to-be launched cryptocurrency. The currency's value will depend on demand for TON tokens (based on an exponential formula provided in their technical whitepaper, with the driving variable being the number of tokens sold), which in turn will be correlated (in theory) with the growth and engagement of the underlying TON commercial platform. More likely, in the near term, the appreciation potential will be driven by speculative investor interest (both retail and institutional) in Telegram and the potential of its yet-to-launch commerce platform.

As a starting point, the aggregate value of TON token currency will be \$1B (the total amount raised in this pre-sale we are considering). The total book size of the ICO will be \$3.5B – effectively our cost basis in the value of currency purchased.

#### Process

We have an opportunity to purchase \$30MM in the presale of TON tokens. The total size of the presale will be \$1B, of which ~\$400MM will come from institutional US-based venture capital firms. [REDACTED]

[REDACTED] have already committed to this round. The company stopped accepting term sheets for this offering last Friday. However, they are keeping the round open until today in order to accommodate Kleiner Perkins, if we decide to participate. The presale is expected to be fully funded by the end of this month.

#### Investment Merits

- Favorable Positioning:
  - Telegram has a strong reputation for security, which would lend itself well to consumer comfort with financial transactions
  - Telegram is a leading platform for cryptocurrency-related discussions, meaning that a large portion of its user base is already familiar with this mode of value storage and payment remittance
  - Telegram has similar levels of engagement and usage as the highest quality messaging platforms today (per [REDACTED] comparison data)
  - Telegram's strong similarities to WeChat suggest that TON could be a \$100B+ commerce platform in the next four years (see analysis attached)
- Global Reach, Massive Opportunity:
  - A truly global, decentralized, commercial platform would be transformative, enabling transactions to occur without currency-related transaction fees or long transfer times, allowing local merchants to reach a massive and engaged global audience.
  - If the commerce platform gains traction on a global scale, the value accretion to TON would be astronomical, with an addressable transactional market in the hundreds of billions.

- Network Effects, User Flywheel:
  - There are powerful network effects in Telegram (like any social messaging application) that will only magnify as a native currency becomes adopted by more users.
  - Telegram is creating clever flywheels to engage users, such as their "Secure ID" - currently, it is quite difficult to buy cryptocurrencies due to the bespoke user verification requirements across all the different exchanges. Having a single "Secure ID" across exchanges would improve ease of access meaningfully, and Telegram would quickly become the most convenient way to verify ID and wallets across exchanges, leading to more signups, leading to a higher value of the overall network (and coin).
- Pricing Structure:
  - Based on the pricing formula for each token, which increases per each successive token sold, we would be purchasing tokens at a 50%+ discount assuming full investor interest is met during the pre-sale (the \$ amount invested is the integral of the exponential curve shown on page 17 of the attached TON Primer, which is always at least 50% below the market value of those tokens).
  - However, our 18-month lockup may make this entry discount marginal relative to the immense volatility that we are likely to experience during the holding period.

#### Challenges

- Volatility -> Transactional Impracticality:
  - Tokens are a speculative asset, rather than a tested and proven mode of transaction.
  - Given that token values are likely to skyrocket early on and be susceptible to massive price swings (just like bitcoin or any other cryptocurrency today), it will be challenging for commercial transactions to occur until the price stabilizes - the timing of which is impossible to predict.
- Technical Feasibility:
  - There is a technical question as to whether it is even possible to create TON's proposed blockchain currency, particularly in the time frame discussed. All they have thus far is a technical whitepaper that is mostly academic.
  - Bitcoin is an early iteration of a transactional currency, but is still a sophisticated one, and it has yet to crack the code on fast transactions at low costs.
- Exposure to Crypto Bubble:
  - There is currently wild speculative interest in "alt coins" (basically any token outside of bitcoin, ethereum, and litecoin), many of which are product-less websites that are raising tens of millions (sometimes hundreds of millions) of dollars from a smart-sounding idea + a few high net worth individuals pumping prices up in a market with very few sellers.
  - Even public companies that add "blockchain" to their name have spiked: Kodak (the photo company)'s stock price jumping 300% last week after an announcement that they would explore blockchain technology.

We have a cryptocurrency discussion (led by [REDACTED] this morning to further clarify the underlying asset we would be buying + the related industry trends. Attached are additional materials for your review, including the TON Primer (password: [REDACTED] and the TON commerce platform network build / WeChat comparison model that [REDACTED] developed yesterday.

Please let us know if you have any questions in the meantime.

Thanks,  
Telegram Deal Team  
[REDACTED]

# Exhibit B

From: [REDACTED]  
To: [REDACTED]  
CC: [REDACTED]  
Sent: 1/15/2018 7:51:34 PM  
Subject: Re: Telegram [REDACTED] partnership

Thanks [REDACTED]! Appreciate you doing this over the holiday weekend.

On Mon, Jan 15, 2018 at 2:07 PM [REDACTED] > wrote:  
Partners,

Per our discussion yesterday, please see attached (in PDF) a framework that illustrates how Telegram's platform [REDACTED] and what that could mean for the underlying currency value.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

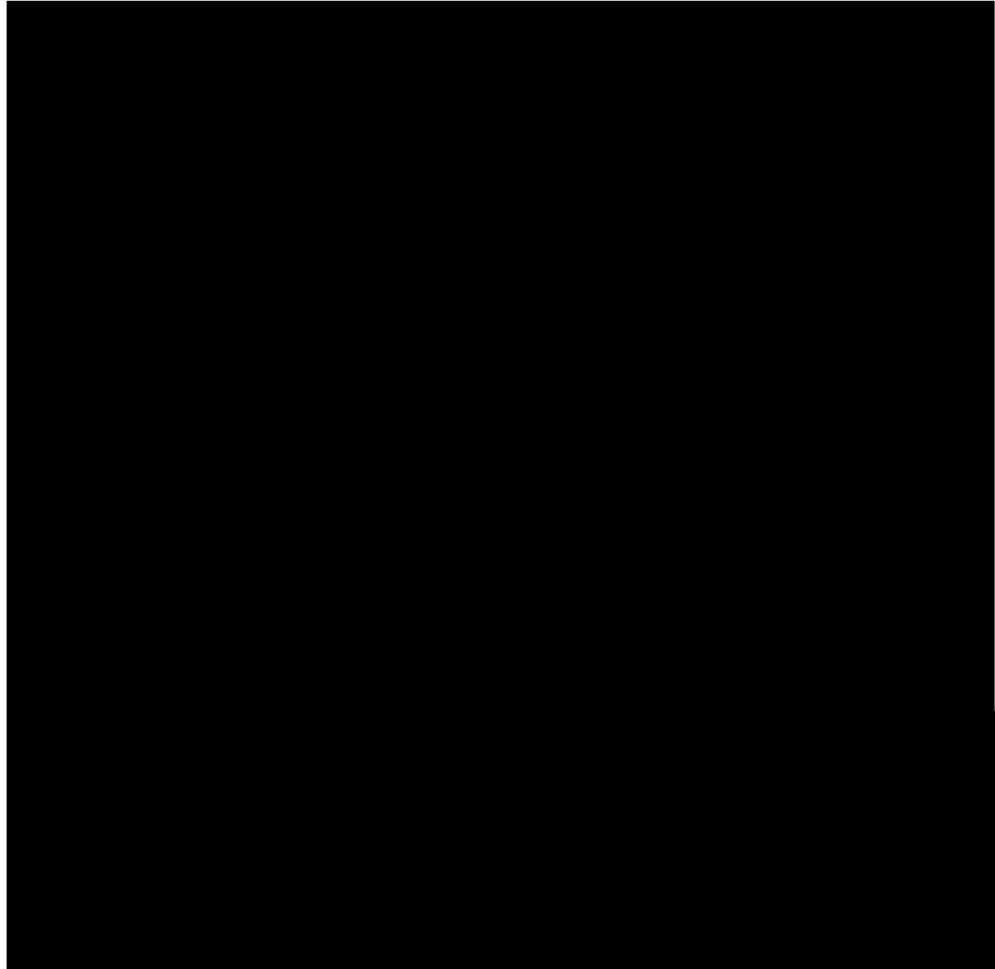
[REDACTED]

Happy to answer any questions on the attached - otherwise the floor remains open to discuss / debate.

Thanks,

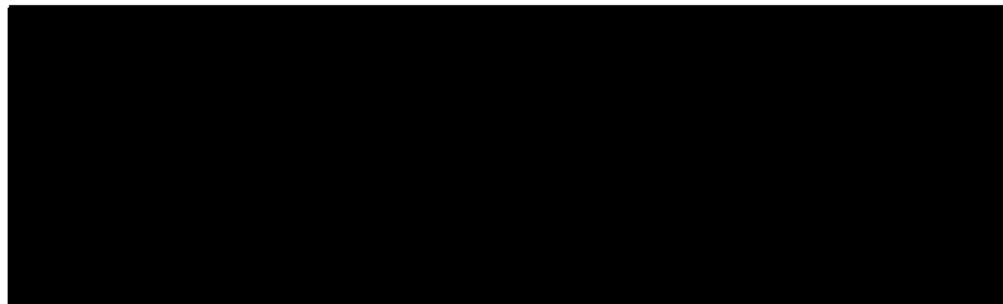
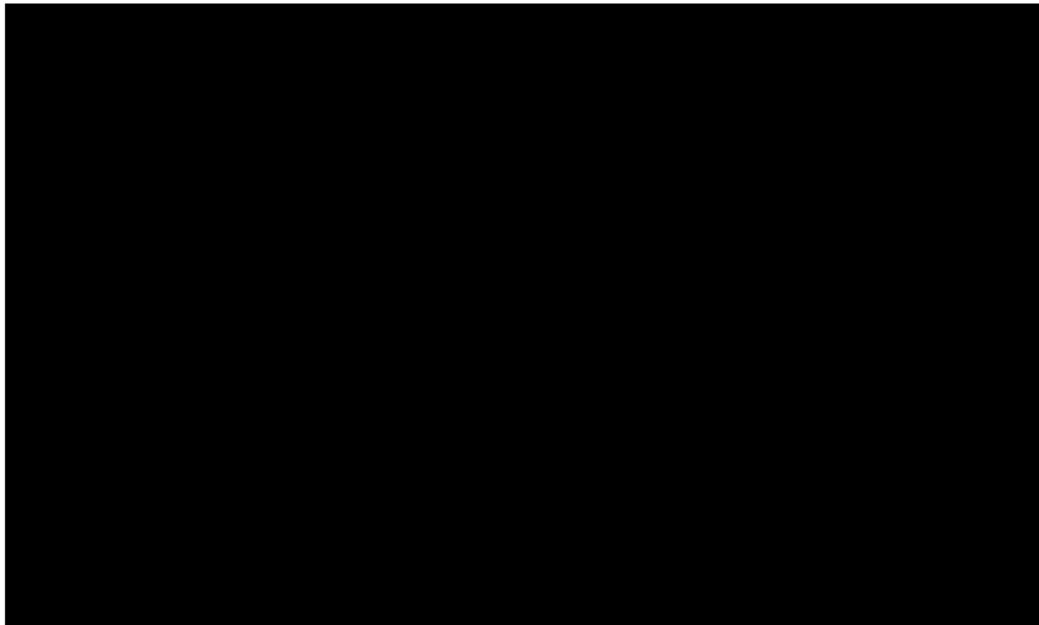
On Fri, Jan 12, 2018 4:47 PM, [REDACTED] wrote:  
Adding thoughts below, as [REDACTED] and I have gone through the questions and discussed:

[REDACTED]



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[REDACTED]

[REDACTED] - [REDACTED] will review the protocol and I will follow up with his thoughts when they come through.

On Fri, Jan 12, 2018 1:34 PM, [REDACTED] wrote:

- [REDACTED]

On Jan 12, 2018, at 12:18 PM, [REDACTED] > wrote:

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I'm inclined to be supportive here.

That said, have a few additional questions:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

**Privileged**

**From:** [REDACTED]  
**Sent:** Friday, January 12, 2018 10:58 AM  
**To:** [REDACTED]  
**Cc:** [REDACTED]  
**Subject:** Re: Telegram/ [REDACTED] partnership

[REDACTED]

[REDACTED]

Will address your other questions later today. I am still in flight. I spoke with [REDACTED] but not [REDACTED]. [REDACTED] is a huge advocate of this opportunity FWIW.

On Jan 12, 2018, at 1:23 PM, [REDACTED] > wrote:

[REDACTED]

On Fri, Jan 12, 2018 at 9:55 AM [REDACTED] > wrote:

Can you try to work [REDACTED] angle for access to data?

On Jan 12, 2018, at 5:40 PM, [REDACTED] > wrote:

Nice job getting the look – not many firms did. Supportive of whatever you feel is best.

Good luck & LMK if there's anything I can do to help.

On Fri, Jan 12, 2018 8:55 AM, [REDACTED] wrote:

See below. Unfortunately we need to make a decision on Telegram without any additional data provided from the company. The items below were discussed at dinner on Tues, with the CEO agreeing to provide them to us. But I think that is no longer on the table given the many other [REDACTED] who are now in this round and who have made their commitments without this additional data.

Begin forwarded message:

**From:** John Hyman <[hyman@telegram.org](mailto:hyman@telegram.org)>  
**Date:** January 12, 2018 at 1:12:41 PM GMT  
**To:** [REDACTED]  
**Cc:** [REDACTED], <[cco@telegram.org](mailto:cco@telegram.org)>  
**Subject: Re: Telegram/[REDACTED] partnership**

Dear [REDACTED]

Further to our call today and your request in the attached mail for information, I have talked with Pavel.

Telegram is not in a position to provide further information - we have treated all investors equally and [REDACTED] has been given the same access to the Company as your peers.

We hope you will decide to invest in the tokens and await the feedback from your partners.

Regards

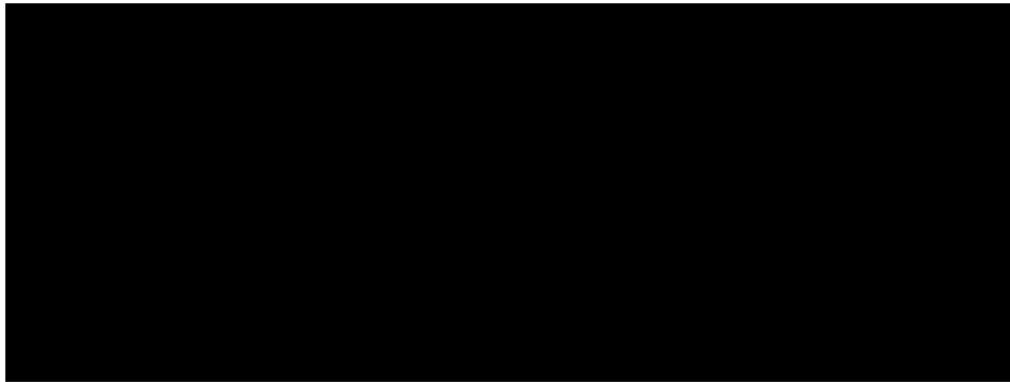
John

On 10 Jan 2018, at 20:05, [REDACTED] > wrote:

Pavel,

Great meeting you yesterday. [REDACTED] and I are diehard users of Telegram and enjoyed hearing your vision firsthand. As we mentioned, [REDACTED] can be a great partner for you, and it would be awesome to find a way to work together.

To that end, can you pls provide us the following trending data on the business (most of which we discussed at dinner):



As promised, we are doing work on our end and expect to get back to you with an answer early next week. The data above will provide us the business/financial clarity we need in order to evaluate the derivative investment by way of the token sale.

Thanks again, and very much look fwd to working together. Pls contact either me or [REDACTED] if we can be helpful in the meantime.



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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

**From:** [REDACTED]  
**Date:** Wednesday, January 10, 2018 at 5:31 AM  
**To:** Pavel Durov <[ceo@telegram.org](mailto:ceo@telegram.org)>, [REDACTED]  
**Subject:** Telegram/[REDACTED] partnership

Hi Pavel,

[REDACTED] and I sincerely appreciated you taking the time to walk us through your journey with VK/Telegram and how the stars have aligned for you build something truly incredible with TON. We would love to be part of that journey with you as partners. Please allow us to gather our thoughts internally as we give you an indication of our interest in the token pre-sale.

All the best and talk soon.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

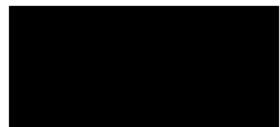
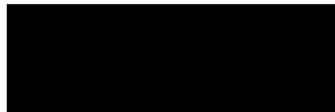
s

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]



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